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Weekly Summary
Special Report

The Eb EC Looks South

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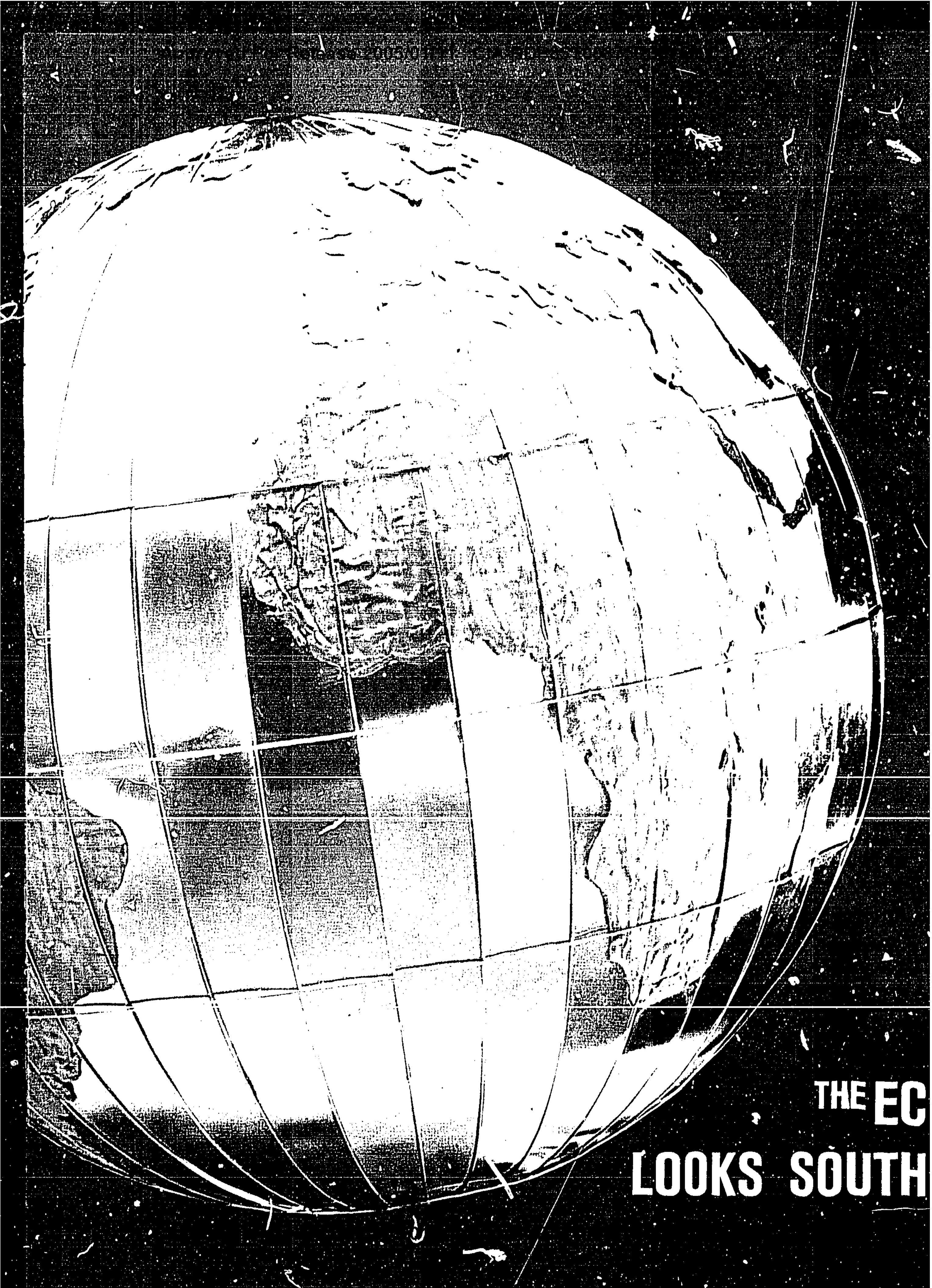

THE EC LOOKS SOUTH

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Summary

Last week, ministers of the European Community and 41 African, Caribbean, and South Pacific states met in Brussels to resume the search for a new and more comprehensive form of association between the EC and less developed nations. These negotiations are necessary because of the expiration in January 1974 of the Yaounde and Arusha agreements that established the existing trade and aid ties—i.e., association—between the EC and 22 former European colonies located in Africa. The agreement last year, under which the UK, Ireland, and Denmark gained membership in the community, included, at London's insistence, a proviso that the EC offer association to the less developed of Britain's Commonwealth partners. In the present talks, the EC is aiming at a single agreement that would link a number of less developed states with the EC, but it may settle for separate agreements with blocs of these countries—perhaps within some over-all framework—or even, as a last resort, simple trade agreements between the community and individual states.

The talks will be watched closely by the rest of the world, for they could produce new working arrangements between have and have-not nations. Failure could increase rivalries among the English- and French-speaking African states and raise further doubts about the willingness of the Europeans to lower trade barriers with the Third World. It now appears that the EC is prepared to grant more generous trade treatment to the less developed nations, a willingness that betokens as much as it does anything the competition among the industrialized nations for the markets and resources of the developing world. The developed states outside of the EC may thus find themselves under increasing pressure to revitalize their trade relationships with the less developed nations.

Background

The concept of association of less developed states with the European Community dates back to the community's establishment in 1958, when France insisted that the Treaty of Rome contain provisions creating a special status for the overseas possessions of member states and for countries with which EC members had unique ties. These associated states were to be eligible for preferential trading terms and also for financial and technical aid administered through a special overseas development fund. In 1964 the various special arrangements were brought together in a single agreement, the Yaounde convention. It covered the French colonies in Africa and the former Belgian Congo and was renegotiated in 1969 for an additional five years. Earlier this year Mauritius agreed to join the Yaounde pact, bringing the total number of states so associated to 19.

Also in 1969 an association agreement was signed at Arusha, Kenya, between the community and the three states of the East African Community--Kenya, Tanzania, and Uganda. The Arusha agreement, which like the Yaounde convention expires in January of 1974, provides reciprocal trade and tariff preferences more limited in scope than those of the Yaounde convention. The Arusha agreement contains no provision for financial or technical aid.

The most controversial feature of the Yaounde and Arusha agreements is the requirement that the less developed signatories grant tariff reductions for European commodities they import in return for the tariff preferences their products receive in the community market. These so-called "reverse preferences," although defended by some of the associates as a sign of the "equality" of their relationship with Europe, are vigorously opposed by many less developed countries as no more than old colonial trading arrangements under a new label. They are also objected to by many developed countries, including the US, because the community's arrangements do not fulfill conditions laid down in General Agreement on Tariffs and Trade rules for free trade areas.

The addition of 16 of the less developed Commonwealth states, including Caribbean and South Pacific nations, arose when London insisted on the EC's offering to these states association terms no less favorable than those granted to the signatories of the second Yaounde agreement. This requirement, along with the expiration of both the Yaounde and Arusha agreements, placed the community under an obligation to negotiate with 38 less developed countries. The total was enlarged to 41 when the community decided to invite the Sudan, Ethiopia, and Liberia, and they accepted.

The 41 are accordingly exceedingly heterogeneous, both in their historical experience with Western Europe and in their attitudes toward the kind of European ties they would find appropriate in the future. The two Yaounde conventions clearly helped Paris to perpetuate French political, economic, and cultural influence in its former African colonies. In contrast, the Commonwealth's system of ties between London and the less developed members was always much looser, and British influence in the governments and economies of these states has sharply declined. Their more independent role extends to the developed world in general and has already been reflected in more assertiveness on their part in the preliminary discussions about EC association.

Since the revision in 1969 of the first Yaounde agreement, French influence in Africa has also waned. In addition, Paris' clients are in a minority among the 41 states now involved. France also finds itself in an enlarged EC in which London serves as a rallying point for states opposed to certain French policies. Paris will, of course, try to maintain as much of its role as possible in sub-Saharan Africa, and the community will face the problem of getting French agreement on necessary compromises with the developing countries.

Thus, although the EC Nine possess far greater economic bargaining power than do the less developed states, they confront a larger and economically somewhat stronger group than the community negotiators dealt with during the Yaounde talks. Moreover, this time the European states find themselves as much if not more divided over their own negotiating position than are their former clients. This latter consideration may prove decisive in determining the course of the negotiations.

The North African Equation

The negotiations with the less developed states of sub-Saharan Africa have been further complicated by talks the EC has initiated with the Maghreb states of Tunisia, Algeria, and Morocco to renew their association agreements. These talks were begun by the Nine under an EC Council negotiating mandate called the "global Mediterranean policy." The mandate, approved on 26 June after months of debate, is an attempt to set general guidelines for the eventual shape of the EC's relationship with all the states bordering the Mediterranean, plus Portugal and Jordan. Agreements reached under this umbrella would replace the disparate network of existing agreements with a set of separate trading arrangements aimed at a long-term goal of a Mediterranean free trade area. The mandate also covers tariff schedules, technical and financial assistance, and the terms under which the EC would receive migrant workers from the Mediterranean littoral.

There are major differences between the EC's negotiations with the Mediterranean countries and the talks with the 41 states of sub-Saharan Africa, the Caribbean, and the South

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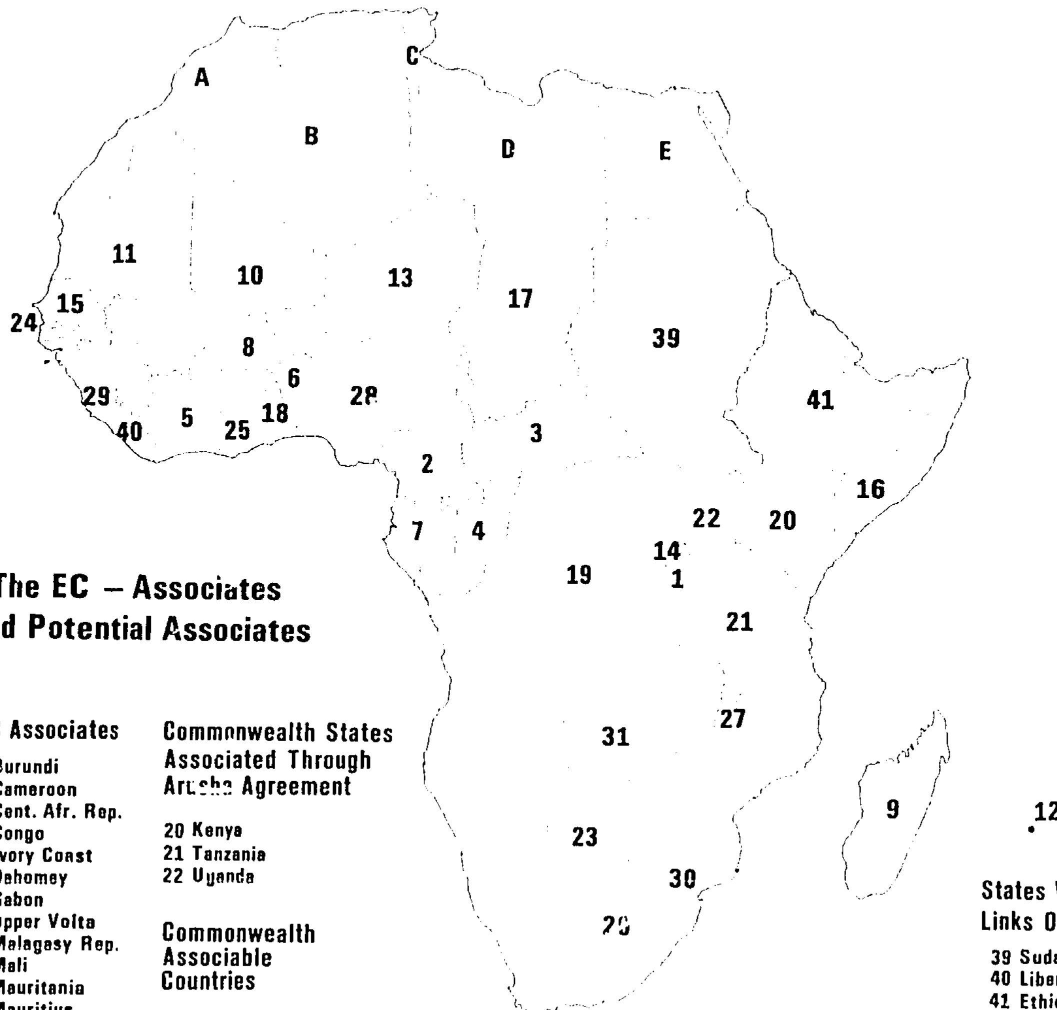

The EC – Associates and Potential Associates

EEC Associates

1 Burundi
2 Cameroon
3 Cent. Afr. Rep.
4 Congo
5 Ivory Coast
6 Dahomey
7 Gabon
8 Upper Volta
9 Malagasy Rep.
10 Mali
11 Mauritania
12 Mauritius
13 Niger
14 Rwanda
15 Senegal
16 Somalia
17 Chad
18 Togo
19 Zaire

Commonwealth States Associated Through Arusha Agreement

20 Kenya
21 Tanzania
22 Uganda

Commonwealth Associable Countries

23 Botswana
24 Gambia
25 Ghana
26 Lesotho
27 Malawi
28 Nigeria
29 Sierra Leone
30 Swaziland
31 Zambia

Countries Offered Association
(not shown)

Commonwealth Caribbean

(32) Barbados
(33) Guyana
(34) Jamaica
(35) Trinidad-Tobago

Commonwealth Pacific

(36) Fiji
(37) Tonga
(38) Western Samoa

States With No Colonial Links Offered Association

39 Sudan
40 Liberia
41 Ethiopia

Observers At Meeting

A Morocco
B Algeria
C Tunisia
D Libya
E Egypt

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Pacific. The negotiating guidelines for the Mediterranean area must fit countries such as Israel and Spain, which are economically far more advanced than the Maghreb states and differ from them culturally and politically. Some of the Mediterranean states are candidates for eventual full membership in the EC. The community, therefore, seeks separate association arrangements with each of the Mediterranean countries rather than a single package agreement as it does in its talks with the 41 less developed countries. On the other hand, all of these states are confronted by a common problem in their negotiations with the Europeans: they export primary products, especially agricultural goods, to the EC and import chiefly manufactured products from it. As a result, they all seek preferences for their exports and wish to delay tariff reductions on imports of finished products from the EC.

EC officials in Brussels have indicated that progress with the Maghreb states will hinge especially on how reciprocity on these matters comes to be defined in the EC bargaining with the sub-Saharan Africans. The North African states take a deep interest in the outcome of the EC negotiations with the 41. The Maghreb states are influential members of the OAU and participated in the OAU ministerial meetings in Addis Ababa and Abidjan at which guidelines were drawn up for the African states participating in the association talks with the community. In addition, Egypt, Libya, and the Maghreb states were present as observers at the pre-negotiating conference between the EC ministers and the 41 in Brussels in July.

The Issues

It was at this conference that the EC and the 41 presented their opening positions and set the stage for negotiations on three main issues: preferential tariff arrangements, financial aid, and stabilization of the prices of commodity exports.

Community representatives opened the July session by offering the Africans three options—an arrangement similar to the existing Yaounde II agreement, an association with looser economic ties modeled after the Arusha convention, or individual trade agreements. The community expressed a preference for the first option, but the Nine were unable to find common ground on the three main issues:

—whether to require that the less developed states grant EC goods preferential tariff treatment—i.e., "reverse" preferences;

—the means by which to grant aid to the associates and how much;

—whether to endorse the commission's proposal for the stabilization of export revenues for primary commodities.

Despite the formal opening of negotiations last week, the Europeans are still divided on these questions.

The less developed states, to the surprise of most observers, displayed a remarkable degree of unity at the July meetings. They rejected any Yaounde-type arrangement and insisted on one far more advantageous to themselves. All of the representatives of the African, Caribbean, and South Pacific states were indeed able to agree on a set of common goals in the talks. These were presented by a Nigerian, Wenike Briggs, who unequivocally stated that:

—the African states will not grant reverse preferences in exchange for tariff and trade concessions from the EC;

—technical and financial assistance from the community to Africa should not be dependent on any particular form of association agreement;

—African states should have free access to community markets for all products, including processed and semi-processed agricultural products, whether or not they are subject to the community's common agricultural policy;

—the Europeans should guarantee "stable, equitable, and remunerative prices" for African commodity exports.

Wenike Briggs at July session

Briggs' presentation was emphatically endorsed by the Prime Minister of Fiji, speaking for the South Pacific Commonwealth states, and by the Foreign Minister of Guyana, for the Commonwealth states of the Caribbean. It was notable that none of the French-speaking states associated with the EC under Yaounde II publicly voiced opposition to the stand enunciated by Briggs. Paris' isolation was brought home by the language of all the major addresses: English.

Trading Preferences

EC disagreement was most apparent when they were unable to agree on the portion of the EC Commission's plan calling for some type of reciprocal treatment by the less developed countries in exchange for tariff preferences by the community on products imported from associated states. The UK was in the vanguard of those members calling for abolition of reverse preferences; France, with some support from Belgium, fought for their retention. London's accession to the community provided a leader for other EC states long opposed to insisting on reverse preferences, and the Dutch and West Germans quickly rallied to London's side. Nor were the other community members, which have no vital interests in sub-Saharan Africa, inclined to support the French, in view of the opposition to reverse preferences by the US and developing countries not associated with the EC.

The chances are that a strict requirement to grant reverse preferences will not find its way into a new agreement. The commission has proposed that the preferences enjoyed by community exports to the associates be effectively eliminated by permitting, even encouraging, the developing states to extend to third countries any tariff advantages offered to the EC. The commission insists on retaining the principle of reciprocity, largely because association is based on a free trade area, and GATT rules permit such areas only when both parties abolish tariffs. The commission—and the French—fear that the US and others could attack the whole association policy if it called for free access for only the associates' exports to the community. Moreover, the commission would like to demonstrate the "equality" of the European and developing countries in the association agreement. The Germans maintain that a one-way free trade arrangement could be compatible with GATT rules, although it remains unclear how this feat could be achieved. The British and Dutch hope to work out some type of arrangement that would effectively eliminate reverse preferences but meet the legal requirements of GATT.

The second demand of the less developed nations in the area of tariff preferences, that of free access to community markets for processed and semi-processed agricultural products regardless of the community's common agricultural policy, faces tough going. Most of the states considering association depend upon export earnings from one or a very few agricultural products. EC members currently welcome most of these products in the raw state because they do not compete with their own processing industries. The processing of agricultural commodities, however, is a relatively easy way to stimulate industrial growth in developing countries and increase foreign exchange earnings. The export to European markets of processed and semi-processed agricultural products thus weighs heavily in plans of the 41 for

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future development. At this stage, little sympathy for their plight is apparent in the thinking of their European trading partners, who are still bent on defending the interests of domestic processers.

Technical and Economic Aid

The EC Commission has proposed a substantial increase in financial and technical assistance. The current program to the Yaounde 19 runs to $918 million, most of which consists of grants administered through the EC's European Development Fund. The proposed increase is designed to assure members of the expanded association that their aid grants will equal those of the Yaounde associates. No figures have been advanced, but if the new program equals the present one on a per capita basis, a minimum offer would amount to $2.754 billion for the years 1975 to 1980, even without allowing for inflation. Aid is a major element in the Europeans' plan for attracting all the associates—old and new—into a single and uniform arrangement. With the possible exception of Nigeria, whose oil resources give it a measure of economic independence, none of the potential associates can afford to reject out of hand a substantial aid offer.

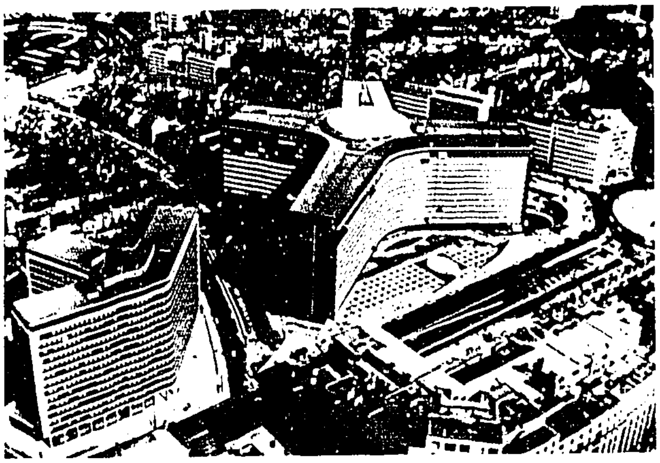
The potential associates do not want EC financial and technical assistance to be linked to a particular form of association with the community. They are asking for an enlarged role in administering the European Development Fund. At present, the Yaounde group participates in setting policy guidelines for the fund through their membership in the Council of Association. The distribution of development fund aid, however, is controlled exclusively by a commission from which the 19 are excluded.

There seems to be little chance the Europeans will agree to eliminate the link between association and aid. The French are especially interested in using an economic aid program to retain as much of their influence in Africa as possible. The EC Commission also argues that community resources are not great enough to provide sufficient economic and financial help to all of the developing world and that aid recipients should be limited to those eligible for association. The commission argument implies that substantial aid, in a context of association, can be a model for the rest of the developed nations in their relations with the Third World. The same argument is used in an effort to counter the claims of other major developed nations that the EC should shoulder a greater share of the burden of aid from the developed to the developing states. Since Britain and the Netherlands retain ties in the Far East and South Asia, they are less enthusiastic about an aid program directed chiefly to Africa and the Mediterranean littoral. In any case, it is likely that the developing states opting for association will have a greater voice than heretofore in determining how such help will be distributed among them.

Stabilization of Commodity Revenues

The attention devoted by the negotiators thus far to the issues of trade and aid has obscured what might well be the most significant aspect of a new association agreement—the guarantee of a stable income to the less developed nations for their principal commodity exports. Among the commission proposals given to the council for consideration is a plan which provides for the EC to aid in stabilizing the annual foreign exchange earnings of each associated country. This would be done by the EC's agreeing to purchase at a fixed reference price a certain amount of any export product included in the agreement. If production of the item is large enough, the EC would purchase its full quota at the reference price. If production should fall below the amount required to meet the export quota, an EC credit would automatically be made available to the exporting country to make up the discrepancy. The export quotas would be set by negotiation; the fixed reference price would be the average world price for the commodity during the preceding five years.

The plan would not directly answer such complaints of the developing states as the negative effects on their exports of soaring inflation in the West, the development of synthetics to replace more expensive primary products, and the



EC headquarters

expanding production within the EC itself of primary products like sugar. The plan would nevertheless go a long way toward meeting the demand of the less developed nations for "stable, equitable, and remunerative prices" for their exports.

The commission regards the scheme as one of the more imaginative of its proposals. The council, however, has failed to agree on the plan or on any other export price support program. The commission hoped the EC members would consider the program separately from the costs of technical and financial aid, but it is politically impossible to separate proposals for a greatly increased aid program and an export price support plan likely to be costly. Some form of export price support is nevertheless likely to emerge in the end.

Outlook

The association negotiations will be long and difficult and may grind along right down to the deadline, January 1975. The 41 less developed states should emerge with terms more favorable than those currently available to the Yaounde 19. The 41 have reached agreement on a set of general negotiating principles. The Nine, on the other hand, find themselves unable to agree even on a basic approach to the major issues. This means that the form of eventual "partnership" will be determined in the negotiations themselves. This approach will make the degree of unity among the less developed nations crucial in the early rounds of talks.

The unity of the Africans and their partners could prove to be illusory. Although French influence is on the wane in Africa, Paris retains strong political and economic leverage with its former African colonies. Since the July meeting, for example, the leaders of Cameroon and Senegal have criticized the opposition of the Africans to reverse preferences as well as the role of the OAU in trying to influence their position in the negotiations. In general, however, French-speaking states of Africa are proving to be less than staunch upholders of French interests in pan-African councils, where their influence is diluted by the greater number and strength of the Commonwealth and independent OAU members. Many of the French-speaking states have grown disillusioned with French support. So when they stand up to be counted at the association talks, few are likely to be willing to risk weakening the degree of African unity that has been achieved for the sake of supporting a form of association not even favored by most of France's EC partners.

If unity is not preserved among the 41, separate negotiations could result between the community and several sets of African countries as well as with the Caribbean and South Pacific states.

At present, it looks a better than even chance that a single association agreement will emerge from the negotiations. For the developing states, a single arrangement would carry with it considerable potential for influencing EC policy toward them—a fact that the Africans, at least, have grasped in working out common institutions and rules among themselves for pursuing the negotiations. The EC may be willing to come up with an arrangement that is loose enough both to avoid political division between English- and French-speaking developing states and to mitigate the complexities of having to deal with several association arrangements.

[redacted]

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A single agreement would be likely to eliminate any effective system of reverse preferences in the community. It would provide for increased financial and technical aid, and give the associated states more influence over its distribution. A diluted form of commodity price stabilization scheme probably would be included. These results, while limited, would mark a change in the relationships between the developed and the less developed. The two sides would be putting behind the old Yaounde convention with its trappings of a colonial past. The new agreements could make less developed nations everywhere more assertive and thus put the trade arrangements of other developed states to the test. [redacted]

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